



DOLLARWISE
MAYORS FOR FINANCIAL LITERACY

2016 DollarWise Summer Youth Contest Final Quiz **Study Guide**

The DollarWise Summer Youth Contest Final Exam questions are designed to test your full knowledge of the information provided in the contest. During the exam, you will be tested on your understanding of each of the 6 modules including the infographics presented at the end of modules 3 and 6. By achieving an 80% or greater on this test, you will be awarded an official DollarWise Summer Youth Contest certificate that will demonstrate your completion of the DollarWise Summer Youth Contest, and the extent of your knowledge of key financial education concepts.

The study guide below should provide you with all of the information that you need to complete the 6 Summer Youth Contest modules and the final exam – so read carefully!

Better Money Habits

Many assume that in order to be good with money that you have to have a lot of it, but this is simply not the case. Being good with money isn't about how much you make—it's about how you manage and plan. Being responsible with money requires discipline and everyday management.

How to Set a Budget and Stick to It

Setting a budget is a tool to help you stretch your paycheck as far as it will go. Everyone should use a budget to manage their finances regardless of how much they make or how much money they have in the bank. When creating a budget, there are six steps that should be followed. These steps include:

1. Knowing your income
2. Determining basic expenses
3. Determining expenses that vary each month
4. Determining what's really important
5. Following your spending and reviewing monthly
6. Keeping track of expenses

*Important! You must base your budget on your **NET** income – the money that you make after taxes, not before.

When establishing a budget, it is particularly important to understand the difference between **fixed and variable expenses**. Fixed expenses are expenses that do not fluctuate such as rent or mortgage payments. Variable expenses are expenses that fluctuate such as groceries, clothes, or entertainment.

Credit and Debit Cards

There are a few important differences between debit and credit cards to consider before owning either.

Debit cards

A debit card links directly to your personal bank account and allows you to access funds either at your bank or via an Automatic Teller Machine (ATM). Debit cards are generally a secure method of making payments primarily due to the Personal Identification Number (PIN) feature, which allows only you to use it. Debit cards are convenient because you can use them almost anywhere. You also don't have to pay interest on the card when you use it, as you would with a credit card.

Infographic 1 – Your Bank Account: 10 Questions to Ask

There are a lot of factors to consider when opening a bank account and obtaining a debit card. A few questions to consider asking a bank manager when deciding to open an account might be:

1. Does the bank account allow for overdraft protection and does the overdraft protection come with a fee?
2. Do I need to keep a certain amount of money in my account?
3. Is there a fee to maintain the bank account?
4. Does the bank where I am opening this account have a branch near where I live or work?

These questions will help get you started in opening an account and allow you to pick the one that makes the most sense for you!

Credit cards

It is very important that you read the fine print of your agreement, and seek advice from a trusted friend or family member, when obtaining a credit card. Credit cards

allow you access to a personal line of credit – essentially providing you with a loan that you have to pay back. Credit cards almost always carry interest on the amount of credit that you take out – money that you have to pay the credit card company for using the credit card – so it is important to understand your interest rate, and recognize that **credit cards are not free money**. Credit cards also generally require a monthly payment that you should be sure to consider.

Infographic 3: Your Credit Score: How it's Calculated

The primary reason to own a credit card is to help you build your credit. When you first take out a credit card, make payments on a car, or take out a mortgage on a house, you receive a credit score, which can fluctuate depending on how well you manage each of these lines of credit. Credit scores generally fall between 300 and 850. Good credit generally falls between a score of 700 and 749. A fair credit rating generally falls between 650 and 699. **The average American credit score in 2014 was 692.**

Increasing your credit score allows you to have more options in your ability to take out larger credit lines to eventually make larger purchases in the future, like a car or a home. When managing your credit, it's important to recognize that the two largest contributors to your credit score are **payment history and amounts owed**.

Taking out a credit card is usually the first exposure that people have to credit. You can build your credit with a credit card by: paying your monthly credit card fee on time, staying within the limit of your credit card, and paying more than the monthly minimum on your credit card. In fact, it is best to completely pay off the balance of your credit card before it is due to maximize your credit score.

The True Cost of Renting a Place

Renting a place to live is a big responsibility. When you decide to rent your own place, there are few things that you need to consider. The first, of course, is the monthly cost of being a renter. It is important to make sure that you can afford to rent your place given the income that you make monthly. To do this, you should create a budget and allocate **30% of your gross income** (income before taxes) to your general housing expenses. These housing expenses should include rent, utilities, insurance, amenities, and other costs associated with renting your place. **Aside from the cost of rent itself, your most costly monthly expenses will most likely be your utilities.** You also might want to consider purchasing renters insurance to protect your belongings in case of a burglary or a fire. In fact, many lease agreements require that you purchase renters insurance.

Creating a Financial Safety Net

Creating a financial safety net is a very smart way to protect yourself from life's unexpected events. Often, people without an emergency fund will borrow money or go into high-interest debt in order to pay for costly, unforeseen circumstances – but you shouldn't have to.

If you don't currently have a financial safety net, the best thing to do is to start putting money into a savings or a money market account where it can accrue interest. You want to put your emergency fund money into an account that is accessible if you need it, but not too accessible that you'll use it everyday. This is why a savings or money market account is a solid option.

You can begin saving by depositing a little bit of money into your account each month, and continuing to build it over time. Initially, your savings goal should be 1 month's worth of financial expenses multiplied by 3. Eventually, your emergency fund should be able to cover all of your living expenses for at least 9 months. While that may seem like a lot of money to save now, you'll be surprised how much you'll be able to put away simply by being diligent about saving.

Saving for College

College is expensive these days, but that shouldn't keep you from going. A college degree is an important milestone and can help you attain better career opportunities and even higher pay. There are many ways to help you pay for your college tuition. While there are all sorts of grants and scholarships out there that can help you pay for college, the most widely used assistance is federal aid. The Federal Government offers grants and loans to students in most public and private universities throughout the United States. When applying for college, be sure to ask for help from a school counselor so that you can make the best decisions possible when moving forward in the college application process.

Infographic 4:

Completing a Free Application for Federal Student Aid (FAFSA)

The first step in applying for federal aid is to complete a FAFSA. With help from a parent or guardian, you can complete a FAFSA online at: <http://www.fafsa.ed.gov>. You can also send your FAFSA form in the mail. **To complete your FAFSA, you will need to provide a parent's social security number, federal tax returns, as well as W-2s and income records. Completing a FAFSA is mandatory in order to be eligible for federal aid.** After you fill out this form, the school that you are planning to attend will send you an award letter, identifying the awards that you are eligible to receive. These awards will most likely include grants, work-study program opportunities, and various federal loans.

Let's go over some of the different types of federal loans -

The most common form of federal loans are:

1. Direct Subsidized loans
2. Direct Unsubsidized loans
3. PLUS loans
4. Perkins loans

Direct loans

Direct loans can either be subsidized or unsubsidized. Direct subsidized loans carry interest that is subsidized or paid for by the federal government while you are in school. They are only offered to undergraduate students, and generally offer lower interest rates. Direct Unsubsidized loans carry interest that you have to pay for while you're in school, and generally carry higher interest rates.

PLUS loans

There are two types of PLUS loans. Parent PLUS loans can be taken out by an undergraduate student's parent to help pay for tuition. Graduate PLUS loans are for students in graduate or professional school. There are fewer limits for the amount that you can receive from PLUS loans, and they generally carry higher interest rates.

While there is still a lot more to know about student federal aid, this information should provide a helpful first step in funding your education and moving forward in your career.

Moving forward

It is our hope that the information in this study guide provides you with a thorough understanding of the topics that are covered in the DollarWise Summer Youth Contest. We wish you the very best of luck moving forward, and encourage you to use the information that you've learned to hone your personal money management skills and to become the master of your financial future!